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Oral History Interview: Steve Shuklian

Steve Shuklian

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REV. 1/91

OWENS GLASS HISTORY PROJECT

AN ORAL INTERVIEW WITH: DR. STEVE SHUKLIAN

CONDUCTED BY: CHRISTIE KASPRZAK

DATE OF INTERVIEW: DECEMBER 20, 1994

Christie: Today's date is December 20th, 1994, and this interview is with Dr. Steve Shuklian, professor of Economics at Marshall University. And what I'd like you to do is maybe just discuss trends in American Industry in the past 10 to 20 years that the Owens glass plant and plants around the country may be patterns in changes in American Industry.

Steve: Okay. I think there are five major tendency's that took place during the 1970's and '80's that undermined a lot of workers jobs, as well as the pay and benefits that were associated with those jobs. The first I think, was the global challenge to U.S. dominance of the world economy which, well, it's getting a lot of discussion today. This whole notion of globalization actually began back in the 1970's, Germany and Japan in particular. But other European nations began to confront the United States as viable competitors in the world market for all kinds of things: manufactured goods, agricultural products, uh, petro-chemicals...things that had been major industries in the United States. Uh, firms responded to this by uh, moving to lower wage areas first in the United States. And then eventually to other nations-Mexico, the far East, they even based some of their plants in Africa, Asia, all of which adversely affected workers jobs in the United States. Secondly, there was technological innovation that eliminated many jobs in manufacturing and mining. One can discuss robotics, for example, in automobile assembly. You can talk about the development of the continuous miner in uh, mining, even here in West Virginia, that allowed a machine to do the work that once took ten men to do. So you introduce those technical innovations and a lot of people are gonna lose jobs. I think also, the thing that really hurt workers in the United States and West Virginia, during the 1980's, were very strong anti-union positions taken by the Reagan and Bush administrations, as well as American corporations. All of this undermined workers wages, uh, it undermined the working conditions in which they uh, were working. And it really undermined job security. Uh...many corporations wanted the flexibility to be able to utilize their work forces in whatever manner was most profitable. And if you have union power that can prevent employers from doing whatever they want, as far as wages and working conditions are concerned, they're gonna be in a much more profitable position, but the workers who work for them are obviously going to be in a relatively poor position, to protect their jobs, above all else. Uh, there was also the wave of mergers and acquisitions in the 1980's, particularly in the junk bond financing of some of these takeovers, both hostile, as well as non-hostile takeovers, leaving corporations with excessive amounts of debt. Junk bonds require fairly substantial interest payments, because they're high risk securities. And so corporations found themselves so saddled, excessively saddled with debt that they had to cut costs to meet the payments on that debt. And the way they did it at first, would be by selling off certain subsidiary operations, particularly ones that might be valuable, so that they could raise the cash to pay the debts. And then secondly, of course, uh, a fast way to cut costs is to cut labor costs. Uh, I think it was the desire to get out of debt that led to this movement that's now called uh, downsizing or trying to make the corporation leaner and meaner and more competitive. I don't think some of the restructuring that's taking place in American corporations is so much for the purposes you might say, of being more competitive in the world economy. They simply had to raise cash to pay those debts, and the only way to do it would be by downsizing their work force. And this is exactly what they did. Uh, finally uh, there has been a shift from manufacturing to the service economy. I think as a result of a number of the pressures, you might say, are forces that I've already discussed. And the jobs that are being created now in this so-called post-manufacturing age, if you will, are low-paying, low-benefit, in many cases, contingent jobs, which means temporary or part-time jobs, that simply again, have undermined the real living standards of most American workers. Real wages actually began to decline for most manufacturing workers in 1973, and I think they decreased at a rate of about seven-tenths a year, seven-tenths of a percent a year, excuse me...seven-tenths of a percent per year between '73 and 1990. So uh, the jobs that are being created to you might say, absorb some of the workers laid off, as a result of plant closings all across the country, including the Owens workers. The jobs that are being created for them, simply aren't the kinds of jobs they were used to. Now, you've just got uh, these low-paying, low-benefit uh, jobs that don't really offer much of a future, and undermine workers power you might say, to make the decisions that will affect their working life.

<u>Christie</u>: Can you just maybe define what a leverage buyout is?

<u>Steve</u>: Yes, uh, a leverage buyout is when a uh, usually either a firm or the management's, another firm or a management within a firm wants to take over another firm. And the way they do that is by going deeply into debt in order to purchase the firms, the target firms stock, you might say, or purchase their assets. In other words, a leverage buyout means you borrow the money to uh, proceed with the takeover to proceed with the merger. And in many cases, what are called junk bonds, are high risk securities uh, for people who basically purchase them. And that they require very high interest payments. And when we say a firm is highly leveraged, what we mean is that they have excessive debt on which there are very high interest charges that they have to pay, once the takeover is complete. But a leverage buyout is basically what you would call a debt-financed merger or a takeover of another firm. And....

<u>Christie</u>: And the result would necessarily mean a lot of cutbacks....

<u>Steve</u>: A lot...this is exactly what happened. The leverage buyout wave of the 1980's resulted in uh, the firms that took over the

other firms to go very deeply into debt, and in many cases, the only way they could make payment on that debt would be first to sell off sometimes the most profitable divisions of some of the corporations that were taken over, to raise cash. But also to definitely trim the labor costs, and cut the work forces and try to get more out of the workers that are left, rather than hire workers to take their place. But they had to cut those labor costs to meet the interest payments on those junk bonds.

Christie: Right. What about...do you think it's a legitimate concern for uh, workers in plants in America to be concerned with factories moving to Mexico? Is this a continuing trend?

Steve: I think it'll continue. I think NAFTA will probably, that's the North American Free Trade Agreement, will probably encourage some of that to continue. And I think workers are rightly concerned that jobs will be lost. Even it's supporters like Bill Clinton and many others, in the democratic and republican parties, have admitted that it's going to cost jobs uh, in the short run. Some estimates were as low as $200,000 or as high as perhaps almost a million. But according to the supporters of NAFTA, uh, more jobs will be created as a result of having Mexico as a market for American goods. I doubt very seriously that uh, that is going to happen in the short run. And I also have serious doubts that that will happen in the long run. If you're one of those workers that's gonna lose your job in the short run, then you should be very concerned about the fact that it's much easier now for corporations to relocate to places like the
regions along the border of the United States and Mexico. And uh, to lose jobs to uh, lower wage workers in Mexico...another trend that that's gonna have is that in some cases the, even the threat to move the corporation to some other country will keep pressures you might say impose downward pressures on workers wages. It'll undermine the agreements that they can make through collective bargaining on working conditions and job security. So, to some extent, the firm doesn't even have to leave. All it has to do is threaten to leave. And in that situation, there, the American workers wages I think, will descend somewhat, while Mexican workers wages might rise a bit. But uh, anybody that works in manufacturing in the United States should be worried about [inaudible]
should be worried about the loss of a job to corporations moving to another country.

Christie: Do you think our economy is, is going to become...almost entirely a service economy?

Steve: No, I think that [clear throat], there will continue to be a manufacturing sector, but it's definitely gonna shrink in size, compared to the uh, service type employment. Uh...this is uh, exactly when you might say the real shift will begin to take place, but uh, with the trends the way they are now, I think service sector employment is gonna definitely gonna make up a major part of the American economy in the coming decades, relative to manufacturing. But I don't, I cannot see the U.S. ever becoming completely a service economy. Although, substantially more so than what's the case up until the 1970's. Plus, a lot of American corporations are in fact, service-oriented businesses. Right now uh, some of the, some of the major sources of exports in the United States, are in fact, service industries: financial services, uh, McDonald's all over the world, these sorts of things like that. (yeah)

Christie: Also, could you comment in changes in management style? At the Owens plant we noticed that uh, in the '50's and even into the '60's, there's a very paternalistic...(mmmm-hmm), and uh, especially with some of the trends like the leverage buyout, that changed drastically. (yeah) Can you tell me why, or when that change came about?

Steve: Well, the...traditional managements styles, which were much more authoritarian in the '40's, '50's, '60's, and even up to the '70's, began to give way to some extent uh, because of the fact that uh, many of the competitors from other parts of the world had already allowed labor, you might say, to play a more active role in making decisions about the firms output, making decisions about how the goods would be produced, making decisions about how the revenues of the firm would be divided from wages and profit. Uh...and this at least initially, was one of the reasons given for the uh, greater productivity, you might say, and competitiveness of foreign corporations, the fact that they made workers feel important, that they gave them a role, you might say to use their intelligence in helping the firm prosper. And so uh, American firms began to experiment with these management styles, I think, in the 1980's uh, more than anything else. But they certain-, they still haven't taken it as far as many other nations. I think to some extent uh, part of the idea behind this trend towards trying to have more worker involvement, uh, has more to do with maintaining discipline of the work force, to make sure that everybody is a team player, they're loyal, they're willing to follow the decisions made by management, so on and so forth. And it is uh, a belief you might say, that allowing workers to express themselves and use their intelligence will make the firm more productive.

Christie: More of a strategy.

Steve: I think it's, I still think it's sort of your typical kind of corporate strategy, to make people feel good, let them express their opinions, even though it doesn't make any difference in the long run.

Christie: Right. Uh...were you familiar with the Owens glass plant here? In Huntington?

Steve: Somewhat, yes.

Christie: I was just wondering how you thought it, just from what you read, and also I guess in the Huntington area in general, how this impact on manufacturing is going to affect small towns, like Huntington?

Steve: Well, the affect on smaller towns like Huntington, it's already fairly obvious. I mean, uh, relatively high level of unemployment, uh, people leaving the community to go where jobs, go where the jobs are, or at least where the pay is better. It can be devastating to a city. One particularly like Huntington, which has traditionally been manufacturing and mining type town, this is what the prosperity is built upon, and Huntington once had it. And I'm sure it's true of many other small communities. And then they see their manufacturing base, their industrial base just unraveled. And people just leave the state...they're going to have problems. They already are...raising enough tax revenue to finance city services, uh, keeping you might say, some of the brighter, younger people here who might make a difference in helping the local community rebuild itself, are facing short-run pressures to leave if they're going to be employable. So, it is a, it's not been a positive trend at all for small communities. And it's not only Huntington. This has happened all over the United States. And in some cases, all it takes is for one industry to shut down and the whole town shuts down with it. What saved Huntington, I'm sure, is the uh, is Marshall University probably becoming the biggest employment, you might say, in this area. And uh, perhaps the movement of some other type service industries and things in the area, federal funds coming in for research projects and places like the Byrd Center, those sorts of things. But the job creating impact, those types of operations are not going to be very great in the short run. (okay) So unless, unless they can attract more manufacturing plants to locate here, and unless they can attract even more service sector type jobs uh, it's going to be pretty difficult for Huntington over the next five to ten years.

Christie: And all these workers are going to need to be trained in those types of skills, I guess.

Steve: They're, they're going to continue to need retraining and education. What's unfortunate is that more and more it seems like the government is becoming less and less willing to pay for it. The programs that they have right now simply aren't sufficient, given the level of unemployment. And the amount of work that really needs to be done to revitalize the American industrial base.

Christie: And they're replacing it with bad jobs, though, any way, right?

Steve: Yeah. I'll give you a perfect example. This is, I've always thought this is really funny. [clears throat] When I first moved here, it wasn't long after I moved here, maybe 1990 or thereabouts, uh, the local papers and uh, local radio stations, television, the community as a whole, made a big deal out of landing Chi-Chi's, right? Landing a Chi-Chi's down on the Superblock. Now uh, whether or not you like Chi-Chi's food, which having it in Salt Lake City, I've never thought it was particularly good. But to praise that as economic development is really unfortunate, in the sense that those kinds of jobs are not going to be considered to be the jobs that require a lot of education and training. They're not the kind of jobs that are going to pay workers good wages and good benefits over the long run. I mean, if your economic development strategy is to try to bring places like Chi-Chi's to town, thinking that somehow or another that's going to revitalize a declining community, you've got a rather simplistic notion of economic development.

Christie: Yeah. Well, great. That's really all I wanted to talk about. Did you think I missed anything?

Steve: No, I don't think so. (great)